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SUBJECT: MADRAZO'S ECONOMIC POLICIES: TWO VIEWS

Sensitive but Unclassified, entire text.

¶1. (SBU) SUMMARY. In separate meetings, two factions of the PRI's economic brain trust offered competing economic visions of the GOM's likely economic policy should PRI candidate Roberto Madrazo win the presidency. Jorge Chavez Presa, Madrazo's chief economic advisor, described Madrazo's platform as based on large structural reforms. According to Chavez Presa, public finance reform, pension reform, labor reform, and competitiveness reforms (including reforms in the energy sector) are crucial to spur economic growth and development in Mexico. However, two members of the PRI's more traditional statist wing argued that economic growth is attainable without structural reforms. Several names have been floated for key economic positions in a Madrazo administration, including Chavez Presa as Secretary of Energy. END SUMMARY.

¶2. (SBU) Chavez Presa met with Econoff and Poloff March 10 to discuss the economic plan of PRI presidential candidate Robert Madrazo. According to Chavez Presa, increasing public and private saving will spur national private investment and increase foreign direct investment (FDI). Government investment in infrastructure will increase living standards and improve public security. He also suggested that clusters of development should be created, perhaps in telecommunications and energy to encourage regional development and promote small business.

PUBLIC FINANCE REFORM

¶3. (SBU) Chavez Presa identified public finance reform to Econoff as the single most important reform. If elected, Madrazo would simplify the tax system in order to increase the tax base by fostering a "culture of contribution." He noted that the PRI-supported lower corporate tax rate did not result in lower tax revenues. Chavez Presa told Econoff that an overhaul of the financial system is needed at all three levels of government. Currently, 98 percent of all taxes are collected by the federal government, leaving few resources for state and local initiatives. Chavez Presa said that Madrazo feels there is too much distance between the federal government that obtains the tax and the state and local governments that know what their populations need. There is little transparency in the government's accounting and decision making. Chavez Presa noted that as more individuals see their tax dollars being spent on projects that their community needs, they will be more inclined to pay. He did note to Emboffs that an effective enforcement system is

needed and that it may take a few years before witnessing results provides an impetus to pay.

MODERNIZE LABOR INSTITUTIONS AND PENSIONS

14. (SBU) Chavez Presa stressed that labor institutions must be modernized to be transparent and accountable. Pay increases, he feels, should be tied to increases in productivity. Chavez Presa went on to tell Emboffs that Mexico should analyze other countries where workers move between companies and between the private and public sector. Portability is needed in order to permit workers to easily transition between jobs, with their pension. Chavez Presa stated that pension reform is an issue that state governments must be involved with noting that the state of Nuevo Laredo is the only state who has already revised its laws. COMMENT.

The National Governors Conference, CONAGO, came up with an integral fiscal reform package that covered many of these issues. The proposal was defeated in Congress by the PRI and PRD. END COMMENT.

COMPETITIVENESS NEEDED - PARTICULARLY IN ENERGY

15. (SBU) Reforms to increase competitiveness are needed to attract and keep FDI while lowering costs to avoid FDI flight according to Chavez Presa. He identified the energy and telecommunications sectors as areas where competitiveness is key. The most forceful comment Chavez Presa made to Emboffs was that reform in the energy sector does not/not imply privatization. Chavez Presa suggested that regional economic policy in Mexico is not controlled by the government but by CFE and Pemex when they choose where to develop their facilities. The effect of this, he claims, is migration from

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areas where the energy giants have not developed. Madrazo, he feels, had firsthand experience with this as Governor and will be prepared to deal with it. Chavez Presa explained that Pemex uses a "Soviet style" plan that is not compatible with the market economy of Mexico. Mexico's fiscal system is determined by cyclical gas prices and the government creates energy policy in order to compensate for a weak tax system. Chavez Presa stated that Madrazo will permit competition in the energy sector where alliances will be permitted to form with the private sector where it is not efficient for Pemex to complete a project alone.

SOME PRIISTAS DO NOT AGREE

16. (SBU) On March 8 Emboffs met with Ricardo Carrillo Arronte and Jesus Alberto Cano Velez of the public finance consulting firm "Aregional." Both are economic advisors to the PRI. Carrillo and Cano are both also affiliated with the PRI's more traditional, statist wing, and are not as close to Madrazo as Chavez Presa. Both discounted Chavez Presa's view that structural reforms are necessary in order to stimulate growth. According to Carrillo and Cano, a Madrazo government could save three to four percent of GDP by reducing expenditures on a variety of government programs. This money could then be invested on infrastructure, creating new jobs and providing an impetus to the private sector to invest in infrastructure. COMMENT. This alternative for infrastructure investment was presented to Chavez Presa, who responded that any PRIista who felt that structural reform was not necessary understood neither Madrazo's platform nor what the country needs. END COMMENT.

POTENTIAL CANDIDATES

17. (SBU) Carrillo and Cano suggested several possible candidates for cabinet positions in a Madrazo government. Former Ambassador and Deputy Foreign Secretary Andres

Rozental was mentioned for Foreign Relations with former Ambassador to Cuba and Austria Roberta Lajous, Senator Silvia Hernandez and Deputy Jose Alberto Aguilar all being mentioned as Foreign Relations Undersecretaries. Chavez Presa, who is very close to Madrazo, was mentioned as a candidate for Secretary of Energy due to the success he had as

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Undersecretary for Energy Policy in the Zedillo administration. Guillermo Ortiz (current head of the Bank of Mexico), Francisco Suarez Davila (past Mexican Ambassador to the OECD and PRI deputy who advanced fiscal reform), Santiago Levy (former director of Mexico's Social Security Institute), Agustin Carstens (former U/S of finance and current IMF Deputy Director) and Pedro Aspe (former finance Secretary) were all mentioned as potential candidates for Finance Secretary.

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COMMENT

¶ 8. While many of Madrazo's proposals target areas of the economy that have been identified by many individuals, including some of the other candidates, as in need of improvement, it is unclear how easily Madrazo would be able to implement his new policies, particularly if Chavez Presa is appointed as Energy Secretary as some have speculated. There is clearly some dissension in the PRI party itself on the correct manner to implement economic reforms. Chavez Presa himself openly admitted that some of the key proposals such as tax reform will take several years to develop.

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